2010 - 2011 Annual Report

MISSION STATEMENT

Through a democratic and consultative process with our producer members, we will create and maintain progressive policies, programs and services that support the production and marketing of safe and healthy milk and milk products for consumers.

VISION STATEMENT

A progressive and responsible dairy industry leader.

BOARD OF DIRECTORS 2010-2011

(Front row – left to right): Jason Wildeboer, Melvin Foth – Vice Chair, Blaine McLeod – Chair
(Back row - left to right): Jack Ford, Jim Ross, Juliann Lindenbach, Isaac Klassen, Sheldon Peifer, David Entz

STAFF

Ryan Boughen, CEO
Mary Ann Costron, Executive Assistant
Doug Miller, Manager Finance & IT
Dianne Cardinal, Producer Payment Officer
Bev Solie, Quota Management Officer
Darlene Weighill, Financial Officer
Deb Haupstein, Dairy Specialist
Wendy Kelly, Communications Manager
Anita Medl, Marketing Manager
Bev Eckert, Promotions Assistant, as of July 2011
Karlen Herauf, Promotions Assistant, up to June 2011
Robyn Klassen, Dairy Youth Ambassador

Chair's Report - Blaine McLeod

It is with a sense of deep responsibility that I write the Chair's Report to the first annual report of our newly formed producer marketing board. We have a strong and mature industry and have a heritage of responsible and effective governance on which to build our future organization.

The efficient merger of Dairy Farmers of Saskatchewan and the Milk Control Board happened in January 2011. However the merger had been envisioned for some time before that and a significant amount of work was done behind the scenes to get us to this place. Many hours of planning and meeting went into getting to this point and I would like to acknowledge the hard work done by all who participated. The support shown by the producers of Saskatchewan was very strong and continues to motivate our efforts.

The staff of SaskMilk have been tireless in their efforts on behalf of our industry. Under the excellent leadership of Ryan Boughen, our CEO, there was a seamless transition. Recently the move to a new office was accomplished without any interruption to our services. I would like to take this opportunity to say thank you for the extra effort and time that it took to facilitate these changes. We look forward to increased effectiveness in fulfilling our mission.

We have been very involved as a board in completing the merger of our two predecessor boards. There are several outstanding issues that are being worked on and hope to conclude in the near future. Our government, working through the Agri Food Council, has asked that our existing processor levy structure be replaced with a fluid milk add on. Another requirement is the development of a new entrant program. Both of these initiatives are being considered and will be brought forward after consultation and further refinement.

Considerable work has also been done in the move towards harmonization of policies in the Western Milk Pool (WMP). WMP Boards worked on harmonizing a Yard & Lane policy across the west. We are continuing work on a Receiving policy, Transportation policy and an effort to bring a collaborative approach to IT solutions. Progress has been slow but the willingness to proceed is evident.

More recently there has been a renewed effort to begin negotiations in an effort to create a national pool of producers. This is not a new initiative but it is receiving new attention as we seek to strengthen the ties across the nation of Canada. Your board has been very clear that any change to our present pooling arrangements must be beneficial to all producers and processors in Canada without leaving behind any province, including Saskatchewan.

Finally, I would like to express my thanks to the Board of Directors of SaskMilk. We have been a cohesive and engaged group and it has been a pleasure to work with each member. I look forward to continuing to work on behalf of our industry.

CEO Report – Ryan Boughen

The first year of operation for SaskMilk was largely transitional. The merger of administrations of the former Milk Control Board and Dairy Farmers of Saskatchewan was formalized in mid-January. SaskMilk operated out of two offices in Regina until mid-June when all staff relocated to an office space located at 444 McLeod Street in Regina. Combining the two offices proved beneficial by making it possible to further integrate the functions carried out by staff.

Administratively, SaskMilk is well-poised to serve Saskatchewan's dairy industry into the future. SaskMilk continues to provide a number of services to producers and the dairy industry. On the promotion side, fluid promotion continues within the Prairie Milk Marketing Partnership. Industrial or processed milk products such as cheese, yogurt and ice cream are promoted in partnership with Dairy Farmers of Canada (DFC). SaskMilk partners with DFC on cream promotion.

SaskMilk also continues to license milk processors for receiving farm milk. On the production side, SaskMilk licenses producers for production quotas and is responsible for purchasing milk directly from licensed producers and transporting the milk to be processed. SaskMilk administers all licensed processor billing and pays producers for milk produced. SaskMilk is party to the Western Milk Pooling Agreement for pooling fluid revenues and the Comprehensive Agreement on Pooling of Milk Revenues for industrial classes of milk.

Farm inspection services, dairy facility licensing and food safety testing are also administered by SaskMilk. Milk component and food safety testing was conducted by CanWest DHI in Edmonton for this fiscal year.

In the spring, "SaskMilk" was registered as an operating name for the Saskatchewan Milk Marketing Board. The SaskMilk name will be used extensively in future communications.

Research Activities

SaskMilk has been actively pursuing a long term agreement with the University of Saskatchewan for the purposes of research. This work was initially started by Dairy Farmers of Saskatchewan with support by the Saskatchewan Milk Control Board. At the end of the fiscal year, the Agreement was being finalized. It was subsequently signed at the end of August, 2011. SaskMilk hopes the Agreement will be in effect for many years to come.

Our vision is to not only help better the dairy industry through research, but more importantly, help all of agriculture. SaskMilk recognizes that our industry is a consumer of what our province does best, produce vast quantities of grains and oil seeds and we believe that the knowledge gained from this research project will help to add economic value to our province. SaskMilk has several other commodity groups that have either already joined the project or are in discussion with us and the University of Saskatchewan to be part of this long term partnership.

Dairy Farmers of Canada Director Report – Isaac Klassen

As a new Director at Dairy Farmers of Canada (DFC) this past year, I have found that this Board can be a steep learning curve with many serious issues and considerable committee work to understand. I have grown to value and respect the Board, many who have been there quite a number of years and have a wealth of knowledge and experience. The DFC staff try to encourage and help in whatever way they can.

Lobbying is always a priority regionally, nationally and internationally to ensure that our supply management system is well understood and any myths are dispelled. Trade files are followed closely to ensure that dairy is not harmed as a result of other measures being considered in Canada's world or bilateral negotiations. Sustainability is a major focus for us at this time, as it has become very important to government and consumers. Research projects have grown through the Dairy Cluster activities in partnership with the Federal Government. Animal Health and Welfare continues to be high profile and DFC is doing more to ensure producers can satisfy government and consumer opinion by being a leader in the livestock industry. DFC also remains responsible for the Canadian Quality Milk (CQM) Program and coordination of national promotion programs.

Promotion Activities

SaskMilk assumed the Promotion, Nutrition and School Milk Programs that were previously administered by Dairy Farmers of Saskatchewan. The transition has been made in a consistent manner with both new and experienced staff administrating the workload.

Promotion programs are divided into regional and provincial activities. Regionally, SaskMilk manages fluid milk through our partnership with Manitoba and Alberta through the Prairie Milk Marketing Partnership. Fluid cream is promoted through a partnership with Dairy Farmers of Canada. Within the province, SaskMilk has a wide variety of activities including major partnerships such as with the Saskatchewan High School Athletics Association, tradeshows, attendance at major events and support for pre-teen and teen activities.

Nutrition Programs and the School Milk Program are managed provincially due to the differences in provincial Departments of Education and Health across the country but resources and incentives are developed and purchased nationally to be more efficient. SaskMilk also partners with health and lifestyle nonprofit organizations to broaden the uptake of our activities.

Financial Statements
Saskatchewan Milk Marketing Board
For the 10 months ended July 31, 2001

MNP LLP

Independent Auditors' Report

To the Directors of Saskatchewan Milk Marketing Board:

We have audited the accompanying financial statements of Saskatchewan Milk Marketing Board ("SaskMilk"), which comprise the statement of financial position as at July 31, 2011, and the statements of operations and changes in net assets, and cash flows for the 10 months ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SaskMilk as at July 31, 2011 and the results of its operations, changes in net assets and cash flows for the 10 months ended in accordance with Canadian accounting standards for not-for-profit organizations.

Emphasis of Matter

This is the first period of operations for SaskMilk, and as such, SaskMilk has early adopted Canadian accounting standards for not-for-profit organizations (part III of the CICA Handbook). Our audit opinion is not modified in respect of the matter emphasized.

Regina, Saskatchewan
October 18, 2011

MNP LLP
Chartered Accountants

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

BEST EMPLOYERS IN CANADA 2011

ACCOUNTING › CONSULTING › TAX
ROYAL BANK BUILDING, 900, 2010 – 11TH AVENUE, REGINA, SK S4P 0J3
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Saskatchewan Milk Marketing Board

Statement of Financial Position

As of July 31, 2011

	2011
Assets	
Current	
Cash	$2,026,659
Accounts receivable	9,974,789
GST receivable	101,646
Prepaid expenses	48,660
	12,151,754
Capital Assets (*Note 3*)	355,878
	$12,507,632
Liabilities	
Current	
Accounts payable and accrued liabilities	$10,153,796
PST Payable	3,264
	10,157,060
Net Assets	**2,350,572**
	$12,507,632

Commitments (*Note 5*)

Approved by the Board of Directors

Director

Director

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Operations and Changes in Net Assets

For the 10 months ended July 31, 2011

	BUDGET *(Note 9)* (Unaudited)	2011
Revenue		
Milk sold to processors	$145,000,000	$149,295,376
Milk pools (*Note 4*)	693,333	276,793
Milk pool administration and assessment fees	852,379	832,974
Interest	36,000	53,509
Milk quality penalties	85,000	154,182
Licence fees and miscellaneous	16,825	27,180
Promotion Levy	2,943,796	2,572,516
	149,627,333	**153,212,530**
Expenses		
Milk purchased from producers	145,693,333	149,572,169
Dairy Farmers of Canada Industrial Levy and Membership	1,141,043	676,519
Promotion and Nutrition Activities	265,195	579,578
Salaries	707,000	563,030
PMMP (Prairie Milk Marketing Partnership)	1,016,011	495,720
Administrative expense	453,010	230,479
Employee benefits	115,692	154,347
Travel, sustenance and vehicle expense	235,874	137,613
Rent	105,720	82,505
Honoraria	77,900	74,550
Legal	75,000	42,780
Amortization		51,654
Cost of production study	20,000	21,986
School Milk Program	99,000	15,675
	150,004,782	**152,698,605**
Excess of revenues over expenses	-377,449	513,925
Net assets, beginning of year		-
Net assets transferred in		1,836,647
Net assets, end of year		$2,350,572

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Cash Flows

For the 10 months ended July 31, 2011

	2011
Cash Flows from Operating Activities:	
Cash receipts from processors and fees	$150,580,038
Interest received	53,509
Cash paid to producers	(150,040,321)
Cash paid to employees and board members	(717,377)
Cash flows from operating activities	(124,151)
Cash Flow used for Capital Transactions:	
Purchase of tangible capital assets	(71,887)
Cash Flow from Financing Activities	
Transfer of cash	2,222,697
Net increase in cash during the year	2,026,659
Cash position, beginning of year	-
Cash position, end of year	$2,026,659

See accompanying notes to the financial statements.

1. **Incorporation:** The Saskatchewan Milk Marketing Board is a producer marketing board established under the Agri Food Act effective October 1, 2010. The Board's general role and responsibility is to design and implement dairy policies and programs for the benefit of producers and other industry stakeholders.

   In particular, the Board is responsible for:

   - collection and purchase of producer milk;

   - transport and sale of milk to distributors and processors; and

   - compensate producers through a multiple component pricing system and manage production levels in conjunction with the National and Regional Marketing Agreements.

   - collect and administer fees or levies required to operate the provincial milk pool, and to fund Board program activities (promotion and nutrition) of benefit to the industry.

   The Board provides leadership to the Saskatchewan dairy industry in addressing provincial, regional, national and international issues. It also promotes the interests of Saskatchewan producers at Western Milk Pool and Canadian Milk Supply Management Committee meetings.

   Industry stakeholders' participation in policy and program consultations is facilitated primarily through semi-annual and annual producer meetings.

2. **Significant accounting policies**

   The financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations.

   a) Revenue Recognition
   Revenue from the milk sold to the processors is recognized when the milk is delivered to the processor.

   b) Cash
   Cash is comprised of monies on deposit with the bank and is recognized at their fair value.

   c) Capital Assets
   Capital assets are recorded at cost and are amortized over their estimated useful lives. Amortization expense is calculated using the straight line amortization at the following annual rates:

Office furniture and equipment 10%
Milk Payment System 10%
Leasehold Improvements 10%

d) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the periods in which they become known.

e) Income taxes

SMMB is incorporated as a not-for-profit organization and is exempt from income taxes.

f) Financial Instruments

SMMB recognizes its financial instruments when they become party to contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value. SMMB financial instruments consist of cash, accounts receivable, and accounts payable. SMMB subsequently measures financial instruments at fair value.

g) Accounting standards for Not-for-profit organizations

In October 2010, the Accounting Standards Board (AcSB) approved the accounting standards for private sector not-for-profit organizations (NFPOs) to be included in Part III of the CICA Handbook-Accounting ("Handbook"). Part III comprises:

- The existing "4400 series" of standards dealing with the unique circumstances of NFPOs, currently in Part V of the Handbook; and
- The new accounting standards for private enterprises in Part II of the Handbook, to the extent that they would apply to NFPOs.

Effective for fiscal years beginning on or after January 1, 2012, private sector NFPOs will have the option to adopt either Part III of the Handbook or International Financial Reporting Standards (IFRS). Earlier adoption is permitted.

As this is the first year of operations, SMMB has early adopted Part III of the Handbook as its new financial reporting standard.

3. Capital Assets

	Cost	Accumulated Amortization	2011 Net Book Value
Milk Payment System	$309,328	$30,933	$278,395
Leasehold Improvements	41,638	4,164	37,474
Office furniture and equipment	56,566	16,557	40,009
	$407,532	**$51,654**	**$355,878**

4. Milk Pools

Effective August 1, 1991 (and continued August 1, 2003), the previous Saskatchewan Milk Control Board entered into an arrangement with its counterparts in Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Alberta, and British Columbia and the Canadian Dairy Commission (CDC). As of September 2006, Newfoundland and Labrador have signed on. This arrangement provides for pooling of revenues from sales of milk components in industrial and special classes of milk sold in domestic and external markets. CDC administers the Industrial and Special Class Pool.

Effective March 1, 1997, the previous Saskatchewan Milk Control Board entered into an arrangement with its counterparts in British Columbia, Alberta and Manitoba and CDC. This arrangement provides for pooling of all revenues from sales of Fluid Milk and Industrial Milk, including special classes, by producers to processors in the four western provinces. The purpose of the arrangement is to pool producer returns as if the western provinces constituted a single market. CDC administers the Western Milk Pool.

The Saskatchewan Milk Marketing Board has replaced the former Saskatchewan Milk Control Board in all previous agreements.

Based on each province's monthly utilization, CDC will either distribute a portion of, or require a contribution to the Industrial and Special Class Pool and Western Milk Pool. Saskatchewan received contributions of $276,793 for the fiscal year of 2010-2011 from the milk pools.

5. Commitments

SMMB has entered into a lease for office space. The future minimum lease payments are as follows:

2012	$85,316
2013	$87,022
2014	$89,659
2015	$92,296
2016	$95,088

SMMB has a commitment to the Prairie Milk Marketing Partnership (PMMP). In accordance with the related agreement, if the Board were to withdraw from the partnership it would still be responsible for its full contribution to the PMMP program for the 12 months following the notice of withdrawal. The contribution is reviewed and updated annually.

6. Pension plan

SMMB participates in the Public Employees Pension Plan, a defined contribution or benefit plan. SMMB's obligations to the Plan are limited to 7% of earnings for all employees for current services. During the year, SMMB contributed $37,439 to the plan, which is recorded as an expense.

7. Financial instruments

a) Fair value

SMMB financial instruments consist of cash, accounts receivable, and accounts payable. The carrying amount of the Organization's financial instruments approximates their fair value, due to their relatively short-term maturities.

b) Credit risk

SMMB is subject to credit risk as all of the Board's milk sales are to one processor.

SMMB is also exposed to credit risk in accounts receivable in the event that a customer fails to honour its obligations. Credit risk is managed with regular credit assessments and active collection activity. In the event that an account is deemed uncollectible, the account will be written off as a bad debt.

c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. SMMB has no significant exposure to interest rate risk.

8. Transfer of assets and liabilities upon inception

Upon incorporation, the Saskatchewan Milk Control Board ("SMCB") and Dairy Farmers of Saskatchewan ("DFS") transferred to SMMB, at their carrying value, the following assets and liabilities:

	SMCB	DFS	Total
Cash	1,920,438	302,259	2,222,697
Accounts receivable	7,372,120	23,688	7,395,808
Other	-	11,252	11,252
Capital Assets	340,144	16,071	356,215
	9,632,702	353,270	9,985,972
Accounts Payable	8,134,258	15,067	8,149,325
Net assets transferred in	1,498,444	338,203	1,836,647

9. The budgeted figures provided in the statement of operations and changes in net assets are presented for information purposes only and are unaudited. The 2010 – 2011 budget was approved by the Board of Directors on September 15, 2010.

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